neonex 1973 report

neonex
three markets

Neonex International Ltd. is a major industrial corporation serving the consumer markets with manufacturing, sales and service locations across Canada and in the United States.

SERVICE INDUSTRIES

ASSOCIATED HELICOPTERS LTD.
FABCO LEASING
NEON PRODUCTS LTD.
  NORTHERN VISUAL INFORMATION SYSTEMS LTD.
  SEABOARD ADVERTISING CO. LTD.
PORTA-BUILT INDUSTRIES

RECREATIONAL PRODUCTS AND MOBILE HOMES

NEONEX HOUSING INDUSTRIES LTD.
  UNITED MOBILE HOMES
NEONEX LEISURE PRODUCTS LTD.
  BOLER MANUFACTURING LTD.
NEONEX LEISURE PRODUCTS INC.
NEONEX LEISURE PRODUCTS CALIFORNIA INC.

CONSUMER PRODUCTS

ACME MERCHANDISE DISTRIBUTORS
  BAZAAR & NOVELTY CO. LIMITED
IMBREX ATLANTIC LTD.
MOUNTAIN CITY NEWS CO. LIMITED
NORTHERN PAINT COMPANY LIMITED
OVERWAITEA LIMITED
PROVINCIAL NEWS CO.
TAPE DISTRIBUTORS
VANCOUVER BLAZERS HOCKEY TEAM LTD.

CONTENTS

our year in brief

Corporate results: sales and revenue increased 21% to $209 million, net earnings were $3.4 million compared to $3.2 million in 1972 and earnings per share were 46¢ compared to 44¢.
(President's letter on page 4 and Financial Review on page 22)

The Service Industries division reported a 26% increase in sales to $27.7 million and an earnings growth of 38% to $1.8 million.
(Story on page 8)

The Recreational Products and Mobile Homes division experienced a 42% increase in sales to $42.6 million. The mobile home operation recorded a good profit increase but owing to the market uncertainties arising from the energy crisis the recreational vehicle operating return was unsatisfactory. The result was a drop in the division's earnings to $30,000.
(Story on page 14)

The Consumer Products division registered a 14% increase in sales to $138.3 million but earnings were down 24% to $1.9 million, as a result of a disappointing performance by Acme Merchandise Distributors.
(Story on page 18)

The capital expenditure program was the largest in the Company's history with a total of $9.4 million allocated to the three Neonex divisions.
(Financial Review on page 22)

TO ASSIST YOU TO KNOW US BETTER

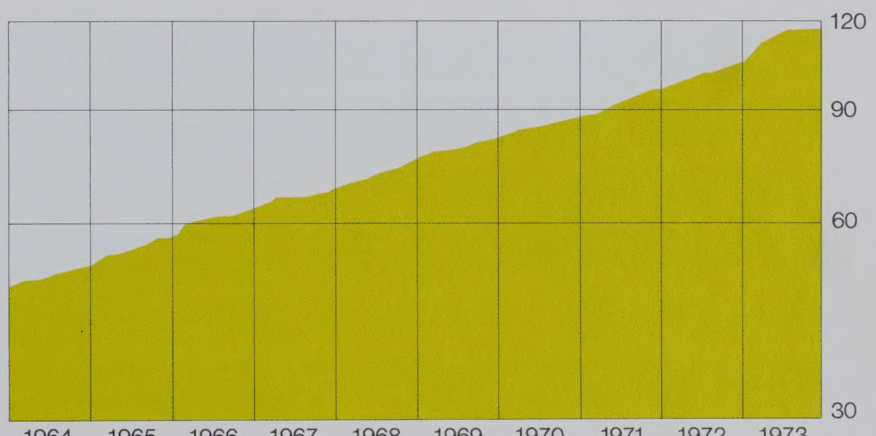
The 1973 Annual Report includes marketing charts (as shown below) which present economic factors related to the Company's present and future market potential.

To facilitate interpretation of our financial statements, we have included a summary of our major accounting policies on page 27, and non-technical definitions of the accounting terminology used have been provided on the inside-back cover of this report.

GROSS NATIONAL PRODUCT
(billions of dollars) ratio scale

Stimulated by consumer spending and housing formation, the Canadian economy has grown rapidly during the last decade. Gross National Product increased by 13.5% in 1973, exceeding the previous year's performance significantly.

In 1974 it is anticipated that Canada will return to a more stable rate of growth but will outperform most other major world economies. The Canadian standard of living is the third highest in the world.
Source: Statistics Canada



historical summary

thousands of dollars
except amounts per share

For the year	1973	1972	1971
Sales	**$208,700**	172,700	146,200
Earnings from continuing operations	**3,400**	3,200	2,900
Earnings before extraordinary items	**3,400**	3,200	3,000
Net earnings	**3,400**	3,200	2,800
Cash flow	**5,500**	6,100	5,200
Dividends paid	**400**	400	400
Return on equity	**12%**	13%	14%
Capital expenditures	**9,400**	5,400	2,600
Per common share			
Earnings before extraordinary items—			
basic	**.46**	.44	.43
fully diluted	**.45**	.43	.42
Net earnings—			
basic	**.46**	.44	.40
fully diluted	**.45**	.43	.39
Cash flow	**.76**	.85	.74
Dividends paid	**.05**	.05	.05
Equity	**4.10**	3.69	3.29
Year end position			
Total assets	**93,500**	82,300	68,800
Working capital	**22,700**	23,900	20,300
Current ratio	**1.8**	2.1	2.1
Shareholders' equity	**29,600**	26,600	23,700
Employees	**3,667**	3,812	3,185
Shareholders	**6,504**	6,016	5,853
Common shares outstanding (thousands)	**7,215**	7,215	7,195

**Not available*
Note: The above amounts have been restated for poolings of interests, discontinued operatior

DIVISIONAL SALES
millions of dollars

	1973		1972		1971		1970		1969		1968		1967	
	$	%	$	%	$	%	$	%	$	%	$	%	$	%
Service Industries	28	13	22	13	14	10	15	11	13	11	12	12	11	12
Recreational Products and Mobile Homes	43	21	30	17	22	15	19	15	21	17	16	15	12	14
Consumer Products	138	66	121	70	110	75	94	74	87	72	76	73	64	74
Total	209	100	173	100	146	100	128	100	121	100	104	100	87	100

1970	1969	1968	1967
128,200	120,800	104,000	87,400
2,800	3,700	3,100	2,600
1,900	4,600	3,900	3,200
(6,300)	4,600	3,900	3,400
400	7,100	5,600	5,300
300	300	200	400
8%	19%	19%	18%
4,300	4,800	2,800	*
.27	.68	.59	.48
.27	.61	.57	.47
(.91)	.68	.59	.51
(.91)	.61	.57	.49
.06	1.05	.83	.80
.05	.05	.05	.20
2.92	3.98	3.38	2.86
72,000	85,800	50,000	43,400
15,000	18,100	11,000	9,700
1.5	1.6	1.4	1.5
20,200	26,900	22,500	18,900
3,765	3,936	3,131	*
5,750	4,050	2,075	2,432
6,936	6,754	5,996	2,229

r period adjustments and stock split.

One of the major earnings contributors over the years has been our Overwaitea supermarket chain.

DIVISIONAL EARNINGS CONTRIBUTION*
thousands of dollars

	1973		1972		1971		1970		1969		1968		1967	
	$	%	$	%	$	%	$	%	$	%	$	%	$	%
Service Industries	1833	48	1327	32	1091	28	1157	35	1080	26	910	28	795	29
Recreational Products and Mobile Homes	30	1	204	5	440	11	96	3	1110	28	598	18	370	14
Consumer Products	1945	51	2555	63	2429	61	2074	62	1854	46	1782	54	1535	57
Total	3808	100	4086	100	3960	100	3327	100	4044	100	3290	100	2700	100

**Before Corporate Office Expenses, Investment Income, Extraordinary Items and Minority Interest*

to the shareholders

In 1973, the Company reported the following results:

- sales increased 21% to $209 million.
- net earnings rose 6% to $3.4 million.
- earnings per share advanced from 44¢ to 46¢.

During the course of 1973 two areas of concern arose: firstly, the energy crisis directly and immediately affected Neonex with its seven recreational vehicle factories located in both Canada and the United States and secondly, Acme Merchandise Distributors produced disappointing operating results.

The Recreational Vehicle division has substantially reduced its production and inventory levels in the United States and in Eastern Canada, and is currently consolidating its production facilities. To this end, the Company has entered into an agreement to sell its Winkler, Manitoba recreational vehicle division, which has specialized in the production of motor homes, and is watching carefully the new consumer buying patterns in this industry which are developing as a result of the energy crisis in the United States and Canada.

Not only was Acme Merchandise Distributors' performance in the year disappointing, but also it was found necessary to amend the audited financial statements for the year ended December 31, 1972, to reflect adjustments in the year-end accrual of certain accounts payable of the division. The effect of these adjustments was that consolidated net earnings for 1972 were $3.2 million or 44¢ per share instead of $3.6 million or 50¢ per share as previously reported.

A new management team is now in charge of Acme with a disciplined plan to restore the historic contribution of this company to Neonex's overall earnings. Five Ontario stores have been disposed of so that Acme can concentrate its management and financial resources in Western Canada.

The management of the Company believes that the positive results from the corrective action it has taken in Acme and the recreational vehicle division will be reflected in the Company's earnings results during the second half of this year.

These difficulties, however, have also made Neonex's strength apparent, in that the strong performance in sales and earnings from the other major segments of the Company's operation resulted in the overall 1973 earnings remaining about the same as 1972.

In December, 1973, a settlement agreement terminating all litigation between Neonex and Norris Grain Company that arose out of the agreement entered into in December, 1969, for the acquisition of control of Maple Leaf Mills Limited by Neonex was completed. Under the terms of the settlement agreement the Company delivered to Norris Grain Company 213,100 common shares of Maple Leaf Mills Limited, for which Norris Grain Company paid an aggregate of $7.3 million to the Company including the return of an option payment previously made by Neonex. Pending settlement of the associated Leitch Transport Ltd. legal action, the extraordinary gain of $3.9 million arising from the settlement has been set aside as a provision for litigation.

Canada with its favourable economic outlook, and more particularly Western Canada with its rich natural resources, is one of the most desirable areas in the world in which to do business. The Neonex main area of investment is firmly positioned to serve this prosperous market region.

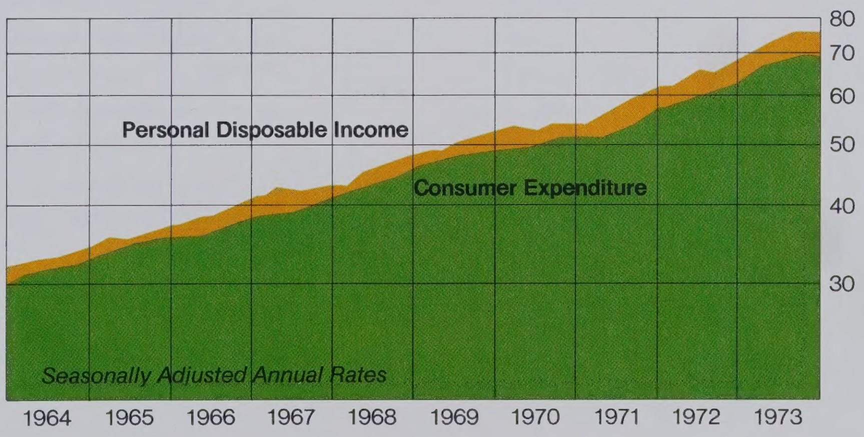
Neonex intends to take advantage of this market area and to concentrate its efforts on internal growth which can be well supported by the Company's financial strength.

JAMES A. PATTISON,
Chairman and President

April 5, 1974

PERSONAL DISPOSABLE INCOME
(billions of dollars) ratio scale

Both personal disposable income and consumer spending in 1973 accelerated what has long been a steady growth pattern as both increased in excess of 13%.
1974 will likely see some softening in this segment of the market but growth performance will still be greater than the last decade. Consumer spending forms the very core of the Canadian economy.
Source: Statistics Canada



neonex international ltd.

BOARD OF DIRECTORS

HARRY B. DUNBAR,
Vice-President Corporate Development,
Neonex International Ltd.
Vancouver, British Columbia.

M. DONALD EASTON,
Partner,
Harper, Grey, Easton & Company,
Vancouver, British Columbia.

LAWRENCE B. EBERHARDT,
Group Vice-President,
Neonex International Ltd.,
Vancouver, British Columbia.

ROBERT W. HALLIDAY,
Chairman of the Board,
Wheelabrator-Frye Inc.,
New York, New York.

MARK N. KAPLAN,
President,
Drexel Burnham & Co. Incorporated
New York, New York.

EDWARD LAWRENCE,
Financial Consultant,
Toronto, Ontario.

JAMES A. PATTISON,
Chairman of the Board and President,
Neonex International Ltd.,
Vancouver, British Columbia.

WILLIAM J. SLEEMAN,
Group Vice-President,
Neonex International Ltd.,
Vancouver, British Columbia.

JOHN M. THOMPSON,
Chairman of the Board,
Crush International Ltd.,
Toronto, Ontario.

SENIOR OFFICERS

HARRY B. DUNBAR,
Vice-President Corporate Development

LAWRENCE B. EBERHARDT,
Group Vice-President

GUY J. LEWALL,
Vice-President and Secretary-Treasurer

JAMES A. PATTISON,
Chairman of the Board and President

WILLIAM J. SLEEMAN,
Group Vice-President

FRED W. VANSTONE,
Vice-President Finance & Administration

STANLEY F. WHITTLE,
Group Vice-President

COMMITTEES OF THE BOARD

Finance Committee:

JAMES A. PATTISON, *Chairman*

ROBERT W. HALLIDAY

MARK N. KAPLAN

EDWARD LAWRENCE

JOHN M. THOMPSON

Audit Committee:

ROBERT W. HALLIDAY, *Chairman*

M. DONALD EASTON

JOHN M. THOMPSON

Compensation Committee:

JOHN M. THOMPSON, *Chairman*

ROBERT W. HALLIDAY

EXECUTIVE OFFICES

1055 West Hastings Street,
Vancouver, British Columbia,
V6E 2H2
Telephone 688-6764, Area Code 604,
Telex No. 04-507616

BANKERS

The Toronto-Dominion Bank
Vancouver, British Columbia

TRANSFER AGENTS AND REGISTRARS

The Canada Trust Company,
Vancouver, British Columbia;
Calgary, Alberta; and Toronto,
Ontario

Bankers Trust Company,
New York, New York

AUDITORS

Peat, Marwick, Mitchell & Co.,
Chartered Accountants,
900 West Hastings Street,
Vancouver, British Columbia

STOCK LISTINGS

Toronto, Vancouver and
American Stock Exchanges

25 years service or longer

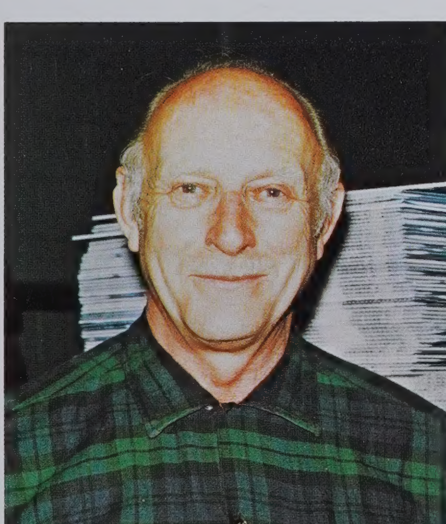
The success and growth of any enterprise is determined to a great extent by the dedication and service of its employees.

In recognition of this fact, we salute these men and women who have been with us for the past 25 years or longer.

We thank them for their loyalty, diligence and contribution made to their respective companies within the Neonex corporation.

Len Armishaw
John Austin
Marybelle Barr
Herb Beattie
Vince Bellamy
Gordon Birk
Robert Blackmore
Ralph Borland
Jim Brockman
Cam Brown
Lillian Bruce
Ralph Canham
Norm Cannon
Walter Carter
Fred Casci
Bill Chapman
Ernie Church
George Cleal
Frank Davis
Pat Dayton
Frenchy Dix
Merle Estabrooks
Harry Evans
Harvey Farrell
George Fear
Charlie Finch
Norrie Finlayson
Joe Fletcher
Wilf Fraser
Jack Geary
Johnny Goodwin
Timer Goodwin
Alvin Goss
John Gough
Des Hallowel
Ken Heales
Clarence Heppell
Jack Heys
Charlie Hunt
Hal Jenkins
Len Kavanagh
Terry Kehoe
Mike Kryzanowski
Buz Lawrence
Guy Lewall
Jim Mailloux
Vic Mariacher
John Meikle
Guy Moule
Bob Oliphant
Peter Park
Charlie Perry
Frank Peter
Sid Phillips
Ewen Ritchie
Jack Rowland
Frank Sadler
Jim Sanderson
Andy Scarabelli
Gus Schram
Vic Shortt
Sol Silverman
Don Simpson
Bob Smith
Fred Smith
Reuben Smith
Harold Spicer
Bill Strachan
Al Sudbury
Bill Townsend
Leslie Watson
Stan Whittle
Ken Young
Jim Zinio

The Neonex employee who has served the company the longest is John Meikle. John started with Neon Products in 1929.



service industries

As a manufacturer of factory-built industrial accommodation, Neonex is helping to meet the ever-expanding requirements in the search for oil and gas reserves in the Canadian Northwest, Alaska and the high Arctic. The Company, because of its 15 year expertise in supplying quality-built accommodation, is now in an excellent position to expand its business in this strengthening market.

The Neonex operation, Porta-Built Industries, ideally located near Edmonton, Alberta, is engaged in manufacturing factory-built buildings on a custom and assembly-line basis for energy and resource community development projects.

Quality constructed as individual units or as total living complexes, the buildings are engineered to withstand the most extreme conditions, from blistering summer heat to the Arctic's winter blizzards. Factory-built accommodations for industrial, commercial and institutional use include: office buildings, dining rooms, complete camp facilities and sewage treatment plants, motels, schools and hospitals.

In 1973 Neonex expanded the production area in its Edmonton plant from 45,000 to 80,000 square feet. The market for our manufactured industrial accommodation units continued to grow throughout the year and the backlog of orders, in excess of $2 million at year end, was the largest in the company's history.

At this time it appears that the sale of camp facilities for Northern areas and commercial buildings to be built in 1974 will be limited only by our capacity to produce. The requests for industrial accommodation are definite and urgent. Neonex anticipates a strong increase in this business during 1974.

Fabco, a Neonex Service Company, leases, rents and sells modular accommodation units to oil, gas, forest, mining and construction companies in Alberta, British Columbia, the Yukon, the Northwest Territories, Mackenzie Delta, Prudhoe Bay in Alaska and the high Arctic.

Products marketed by Fabco include industrial camp equipment comprised of bunkhouses, kitchen-diners and recreational units as well as temporary industrial office units for use by construction companies, mining and manufacturing firms, utilities and institutional facilities including hospitals and schools.

SERVICE INDUSTRIES

	1973		1972		Change
	Amount *(thousands)*	Percent of Total	Amount *(thousands)*	Percent of Total	Percent
Sales	**27,700**	**13**	**22,000**	**13**	**+26**
Earnings	**1,833**	**48**	**1,327**	**32**	**+38**

In 1973, to meet the strong demand for industrial, commercial and institutional accommodation, Neonex increased the size of its manufacturing plant near Edmonton, Alberta.

Neonex leases, rents and sells factory-built accommodation for industrial, commercial and institutional use in Alberta, British Columbia, the Northwest Territories, the Yukon, Alaska, and the high Arctic. The types of accommodation available include: portable offices, bunkhouses, dining rooms, recreation rooms, complete camp facilities, sewage treatment plants, motels, schools and hospitals.






During 1973, Fabco made a deeper penetration into existing markets, an expansion of new product lines (attributable to increased purchasing activity by resource-based industries), a wider diversification of customer base and an aggressive marketing program. Fabco has made significant gains in the institutional area and is considered to be a leader in modular school buildings in Canada.

With an extensive inventory of nearly one thousand lease and rental units, and a strong established customer base, Fabco is planning to further increase its penetration of the Western Canadian market.

In 1973, Associated Helicopters continued to take steps necessary to meet the changing demands of a competitive industry

As a result of the world energy shortage, conventional oil exploration activity in Western Canada, Alaska and the Arctic is on the increase. Ideally located, the Neonex helicopter company is strengthening its share of this growing market.

A new signage program was successfully introduced in 1973 by the Company. Here we see an example of the use of artistic fabricated plastic modelling on a sign to sell the message pictorially rather than with words . . . the growing use of symbolism for quick and lasting impact.

with the addition of more jet-powered helicopters. The purchase of three JetRangers is planned for 1974.

Northern development continues to grow with the energy shortage stimulating oil exploration, pipeline and highway programs.

Associated Helicopters base facilities at Inuvik, Northwest Territories, have been increased as more equipment and personnel are assigned. Additional mobile home housing units have been added to accommodate our staff. A base has been opened at Slave Lake and a helicopter stationed at Fort McMurray, Alberta.

Over the long term, the company looks to steadily increasing business and should the pipeline project from the MacKenzie Delta go ahead, there could be a dramatic increase in revenue. While major facility expansion will be dependent on such projects, plans for 1974 include the opening of additional bases along the MacKenzie River Valley.

Associated Helicopters' 25th year of operation in Canada will be celebrated in 1974.

Neon Products Ltd. is recognized as one of the leaders in the custom sign industry in North America. This position has been reached and maintained as a result of:

- the "Facelift" program initiated by the company which has been well received by civic officials in many communities and is gaining momentum each year,
- innovative designs created by the sales force, artists and factory craftsmen whose expertise is second to none in the industry,
- development of a uniform sign code as a guide to civic governments in the formulation of effective sign by-laws,

- a progressive leasing philosophy on which the company was founded and has prospered for the past 46 years.

Neon Products continues to direct its energies and resources to improve the image of the industry in the eyes of the public, a necessary step in view of increasing competition and current environmental attitudes with respect to the outdoor sign industry.

Despite these factors, earnings have shown a marked increase over the previous year, and the company continues to build its reputation as a result of quality of design and product, an aggressive sales force and innovative merchandising concepts.

Seaboard Advertising is opening up new avenues of revenue by participating in Market Place Advertising, a new national medium established in major shopping malls and plazas across Canada. Seaboard holds the Market Place franchise for Greater Vancouver, Victoria and Nanaimo in British Columbia.

Northern Visual Information Systems Ltd., a joint venture with American Sign & Indicator Corporation, specializing in electronic computer signs, continues to make progress with increased business across Canada.

recreational products and mobile homes

Profitable growth was recorded in 1973 by both the Neonex manufacturing company, Neonex Housing Industries and the retailing company, United Mobile Homes.

Expanded mobile home and sectional home manufacturing capacity was developed in the Calgary plant early in 1973 and has resulted in the greatest level of production and sales to dealers since construction of the plant in 1968. Dealer acceptance has continued very high and Neonex Housing Industries enjoys an enviable position as a manufacturer in the growing mobile home industry in Western Canada, as evidenced by an ever-increasing order bank.

A market study was completed in Eastern Canada during the past year, resulting in the Company's decision to build a mobile home manufacturing plant near Moncton, New Brunswick.

This 67,000 square foot plant is expected to be in production by the middle of 1974. Initial dealer reaction has been very favourable.

RECREATIONAL PRODUCTS AND MOBILE HOMES

	1973		1972		Change
	Amount *(thousands)*	Percent of Total	Amount *(thousands)*	Percent of Total	Percent
Sales	42,600	21	29,900	17	+42
Earnings	30	1	204	5	−85

Mobile homes and sectional homes now enjoy nearly 20% of all new home starts in Canada. To cover this growing market the Company will open a second manufacturing plant in Eastern Canada.

Neonex, a leader in quality built mobile homes, provides a full range of 26 elegant floor plans in its Imperial, Emperor, Estate and Brentwood models.

United Mobile Homes has further capitalized upon the available market potential through a marketing program developed by the company. Its retail outlets continued to attract more consumers by improved lot appearance, more effective identification, illumination and fixed displays (similar to a conventional show home concept). This program is slated for completion in 1974.

Mobile homes and sectional homes now enjoy approximately 20% of all new home starts in Canada. Business indicators point to the outlook for mobile home sales remaining strong both in the short and long term.

During the first half of 1973 Neonex recreational vehicle sales set a record pace with indications of an excellent year. However, the market dropped sharply during the second half of the year due mainly to the uncertainties created by the energy crisis. This, coupled with a manufacturing reorganization at the company's Red Deer, Alberta plant were the chief contributing factors to unsatisfactory results recorded in the second half of 1973.

As part of its program to consolidate manufacturing facilities, Neonex announced at the start of 1974 it had entered into an agreement to sell its Triple-E and Dutch Swinger recreational vehicle and mobile home facilities located at Winkler, Manitoba.

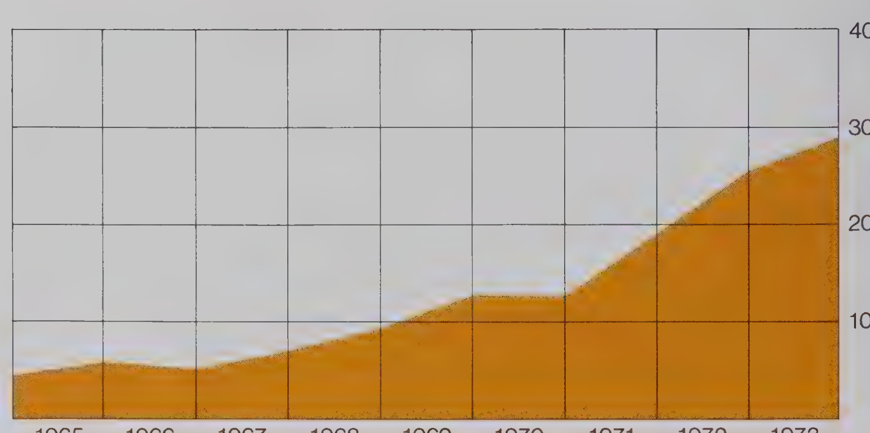
Neonex will continue to participate in the recreational vehicle business in Canada with its "Travelaire" and "Holidaire" travel trailers, "Rustler" truck campers, and tent trailer lines manufactured in its production facilities located at Red Deer, Alberta and Arnprior, Ontario; and with its "Boler" and "Honey" fiberglass trailers produced in Winnipeg.

In the United States, Neonex will continue to manufacture product at its plant located in McMinnville, Oregon, with its "Holidaire" and "Splitliner 5th Wheeler" lines and in Los Angeles, California with its "Dreamer" truck campers. Production in 1974 will be restricted to lower levels than in the equivalent period in 1973.

MOBILE HOME SHIPMENTS*
(thousands of units)

Increased costs of land, construction and financing have made conventional housing beyond the reach of increasing numbers of prospective homeowners. Mobile home shipments increased significantly in 1973 over the previous year and this rate of increase is far outpacing the growth of conventional housing in Canada. The economies of mobile homes have fulfilled a market need and we expect this market growth to continue.

*Residential only
Source: C.M.H.T.T.A.



Growing in popularity across the country is the Neonex Boler travel trailer. This lightweight 13 foot fiberglass unit can be towed by any car, regardless of engine size.

The popular Travelaire and Holidaire travel trailers continue to be manufactured in Canada and the United States. Other Neonex recreational vehicles include the Rustler Truck Camper and Splitliner 5th Wheeler.

consumer products

The Neonex supermarket chain, Overwaitea Limited, continued its steady growth record and again experienced higher sales and earnings in 1973 despite supply problems, rail strikes and increased costs due to commodity shortages and higher wages.

During the year there were a total of five modern new supermarkets opened to serve the residents of British Columbia. These new stores are located in Williams Lake, Campbell River, Kimberley, Westview and Quesnel. The most noticeable change in the appearance of these new supermarkets is the design, theme and motif to fit the atmosphere and tradition of each respective town.

The company's expansion plans for 1974 include the construction of six new supermarkets to be located at Merritt, 100 Mile House, Prince George, Ladner, Golden and Kamloops. The Kamloops location, with a 23,000 square foot building, will be the largest store to date in the Overwaitea chain of 48 stores in British Columbia. Five of these stores are discount food markets operating under the name "Prairie Market."

Neonex continued to record higher earnings in the distribution of periodicals and paperback books to nearly 1700 retail outlets in Canada. Mountain City News, operating in the Province of Ontario for the past 66 years, increased its new magazine and paperback retail outlets in 1973. A new warehousing concept was introduced at the company's facilities which contributed to greater efficiency in the flow of periodicals to our retailers.

Provincial News, the Company's wholesale distributor of magazines and paperback books in northern areas of Alberta, British Columbia, Saskatchewan and all of the Yukon and Northwest Territories continued to record sales growth in 1973. Early this year, the company moved to larger facilities in Edmonton and improved its distribution system by utilizing new computer systems. The new techniques are providing greater control on distribution, ordering and allocation of periodicals and paperback books to retail outlets.

The publication of additional periodicals and the increase in cover prices have improved revenue levels. It is anticipated that 1974

CONSUMER PRODUCTS

	1973		1972		Change
	Amount *(thousands)*	Percent of Total	Amount *(thousands)*	Percent of Total	Percent
Sales	**138,300**	**66**	**120,800**	**70**	**+14**
Earnings	**1,945**	**51**	**2,555**	**63**	**−24**

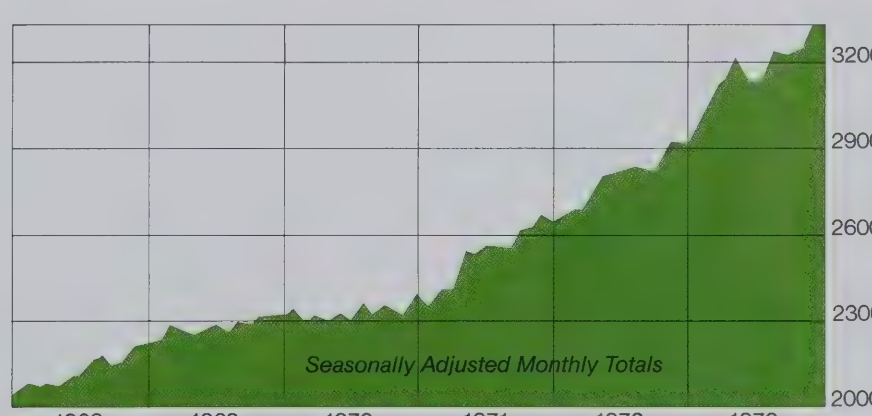
In 1973 Neonex opened five new supermarkets in British Columbia. A new dimension in consumer merchandising helped increase customer traffic to a new record.

will be an excellent year in rate of growth for both periodical companies.

Neonex continues to participate in the floor covering industry in the Maritimes through its company Imbrex Atlantic. Located in Moncton, New Brunswick, Imbrex in 1973, recorded its highest earnings in recent years.

Despite the excellent performance of the other companies within the Neonex Consumer Products division during 1973, Acme Merchandise Distributors did not contribute to earnings

RETAIL TRADE
(millions of dollars)



The Growth of per capita income, population employment and personal disposable income are all reflected in retail sales. This is where the strongest impact of today's consumerism is realized.
Source: Statistics Canada

Rapid expansion in 1973 has helped to extend the Company's catalogue showroom representation in Western Canada.

of the division, although sales exceeded the previous year. The principal contributing factors were lower margins and higher operating costs.

During 1973 Acme Merchandise Distributors opened 12 new stores and entered three new markets. As a result, at the end of 1973, Acme had 36 stores in operation compared to 24 at the end of 1972 and 12 at the end of 1971.

Two new locations were opened in each of Thunder Bay, Winnipeg, Calgary, and Vancouver and one in Brandon, Saskatoon,

New paint stores were opened in 1973 under the name "Decor 8", all designed to cater to a broader decorating market than our previous retail outlets.

Edmonton and Prince George. This expansion has greatly extended Acme's market representation in Western Canada.

At the beginning of this year the Company sold the assets of five stores located in Ontario.

Acme's primary emphasis in 1974 will be to consolidate and strengthen its operations and develop a new merchandising impetus. Plans for 1974 include the centralization of all buying and distribution functions, the setting up of a 200,000 square foot distribution centre and the establishment of an electronic point of sale data system. Steps have already been taken to strengthen management and bring new direction to the company.

The growth of the Neonex company, Northern Paint, continued at a brisk rate in 1973, with both sales and earnings reaching a record high.

The company acquired new warehousing facilities in Winnipeg, Manitoba, which freed up additional space for paint manufacturing. Northern Paint produces a full line of quality oil and latex base paints for wholesale distribution and retail sale, as well as industrial paint and wood finishes. The increased plant space and improved production techniques will enable the company to manufacture a larger product mix at a more economical production cost.

The retail division, which has operated under the name of Northern Paint, was expanded in 1973 with the development of a new trade style, "Decor 8." New stores opened in Calgary, Regina and Winnipeg are designed to cater to a broader decorating market than the previous retail outlets. Each store is departmentalized to display all paint lines and sundries with particular emphasis on wall coverings and accessories, and feature modern carpeted areas to create a more comfortable sales atmosphere.

The name Decor 8, together with the interior and exterior design of the stores, were designed and developed within our own corporate group by Neon Products. Neonex is planning further expansion of Decor 8 stores in 1974.

The Company, which is concentrating its attention on consumer opportunities in the leisure and personal discretionary income segment of the market, purchased the Vancouver Blazers Hockey Team of the World Hockey Association in the latter part of 1973.

The city of Vancouver has developed the reputation of being the best fan supported hockey town in North America. During the 1973-74 hockey season over one million persons watched professional hockey in Vancouver.

Both the above-average population growth in the Greater Vancouver area and the 50,000 boys now playing minor hockey in British Columbia (up from 12,000 in 1964) augur well for attendance in the coming years for major league hockey teams.

This move by the Company has also stimulated promotional and merchandising programs within other consumer companies in the Neonex group.

In its inaugural year with the World Hockey Association, the Vancouver Blazers Hockey Team set a new record for the league in season attendance.

financial review

The fiscal year ended December 31, 1973 has been characterized by a continuation of the sales growth pattern established over the past seven years. The underlying strength of the Company has been displayed during the past year as well. With the exception of the Acme Merchandise Distributors group and the recreational vehicle manufacturing companies, earnings growth has been recorded in the Company's major operating segments. In the case of Acme, lower margins and higher operating costs associated with new store expansion have caused adverse operating results. With respect to the recreational vehicle manufacturing companies significant progress had been shown through the first six months only to be totally offset by the unfavourable conditions which arose as a result of the energy crisis and its related market uncertainties.

The unsatisfactory operating results of the two groups mentioned above, together with the competitive business environment that currently exists and the rising wage and product costs generally being experienced, continue to put pressure on profit margins.

In the course of preparing its 1973 year-end statements, the Company discovered adjustments were required in the accrual at December 31, 1972 of certain accounts payable of the Acme Merchandise Distributors group of companies. The Company has announced it has amended its audited financial statements for the year ended December 31, 1972 to reflect these adjustments, the effect of which was that consolidated net earnings for 1972 were $3,200,000 or 44¢ per share instead of $3,600,000 or 50¢ per share previously reported. Action is currently being taken to strengthen our accounting and operating systems.

The Neonex financial position continues to be strong. Shareholders equity has risen from $26.6 million or $3.69 per share to $29.6 million or $4.10 per share. Working capital is $22.7 million and current assets are 1.8 times current liabilities.

The Company undertook the largest capital expenditure program in its history last year with $9.4 million in funds directed to new retail locations in the Consumer Products division, commencement of the construction of a new mobile home plant in New Brunswick, expansion of the Edmonton facility for the production of industrial accommodation, and improvement of the helicopter fleet. Worthwhile earnings benefits are expected in future years as a result of these expenditures.

Funds amounting to $7 million generated from the settlement of the Norris Grain Company litigation and received during the year, together with funds provided from operations, have met the Company's $9.4 million capital expenditure program and permitted a net reduction in long term debt of $2 million. Pending settlement of the associated Leitch Transport Ltd. legal action, the extraordinary gain resulting from the settlement of the Norris proceedings has been set aside as a provision for litigation.

Action taken subsequent to the year end, through which the Company entered into agreements to sell the assets and businesses of the Pop Shoppes, five locations of Acme Merchandise Distributors and the Winkler, Manitoba operation of Neonex Leisure Products Ltd., will serve to further strengthen our financial position.

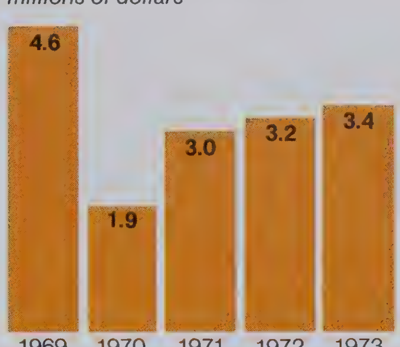
earnings

Neonex International Ltd.
and subsidiaries

	YEAR ENDED DECEMBER 31	
	1973	1972
	(thousands)	
		Note 10
Sales and revenue		
Net sales and operating revenue	**$208,700**	172,700
Other income	**1,000**	700
	209,700	173,400
Cost and expenses		
Cost of sales and operating expenses	**162,800**	133,100
Selling and administrative expenses	**35,900**	30,100
Depreciation	**2,500**	2,000
Interest on long-term debt	**2,000**	1,600
Other interest	**800**	400
	204,000	167,200
Earnings before income taxes	5,700	6,200
Income taxes—Note 12		
Current	**2,800**	2,000
Deferred	**(500)**	1,000
	2,300	3,000
Earnings before extraordinary items	3,400	3,200
Extraordinary items—Note 13	—	—
Net earnings	**$ 3,400**	3,200
Per share data—Note 14		
Earnings before extraordinary items	**46¢**	44¢
Extraordinary items	—	—
Net earnings	**46¢**	44¢
Cash dividends	**5¢**	5¢

SALES
millions of dollars

EARNINGS
before extraordinary items
millions of dollars



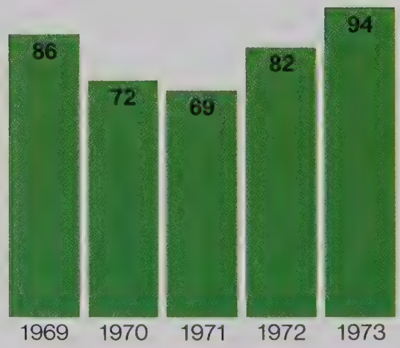
balance sheet

Neonex International Ltd.
and subsidiaries

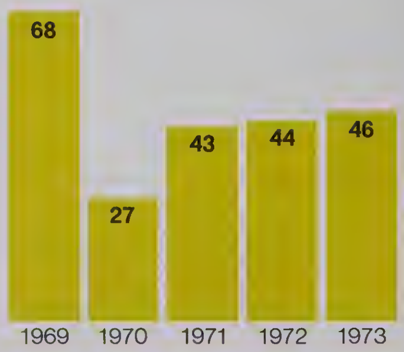
ASSETS

	DECEMBER 31 **1973**	1972
	(thousands)	
		Note 10
Current assets		
Cash	**$ 200**	2,600
Receivables	**14,200**	14,000
Inventories—Note 2	**35,700**	28,100
Prepaid expenses	**800**	600
	50,900	45,300
Other assets		
Receivables	**9,700**	9,000
Investments—Note 3	**2,500**	3,200
Deferred charges	**5,000**	4,700
	17,200	16,900
Property, plant and equipment—Note 4	**25,400**	20,100
	$93,500	82,300

TOTAL ASSETS
millions of dollars



EARNINGS PER SHARE
before extraordinary items
cents

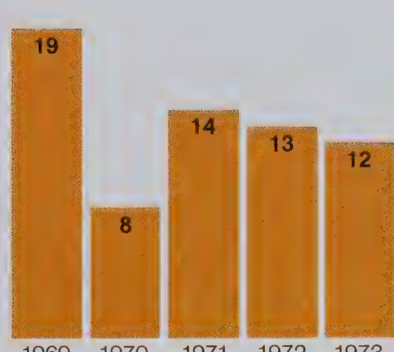


LIABILITIES AND SHAREHOLDERS' EQUITY

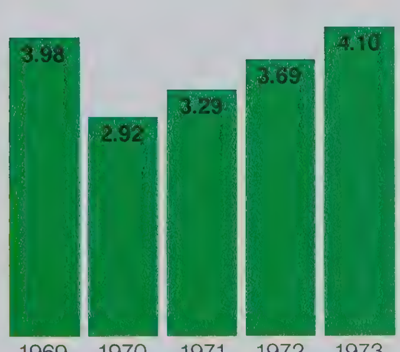
	DECEMBER 31 **1973**	1972
	(thousands)	
		Note 10
Current liabilities		
Accounts payable	**$25,900**	20,600
Current maturities	**2,300**	800
	28,200	21,400
Long-term debt—Note 5	**11,800**	13,700
Deferred and other credits—Note 6	**8,900**	5,600
Convertible notes—Note 7	**15,000**	15,000
Shareholders' equity		
Common shares—Note 8	**5,900**	5,900
Retained earnings—Note 9	**23,700**	20,700
	29,600	26,600
	$93,500	82,300

On behalf of the Board
JAMES A. PATTISON, *Director*
M. DONALD EASTON, *Director*

RETURN ON EQUITY
percentages



EQUITY PER SHARE
dollars

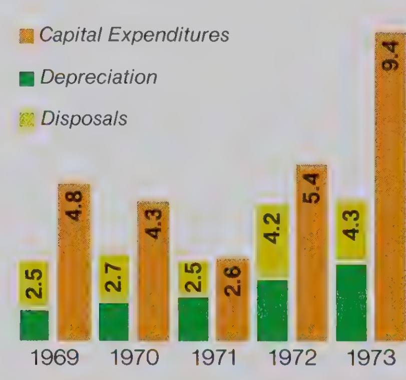


changes in financial position

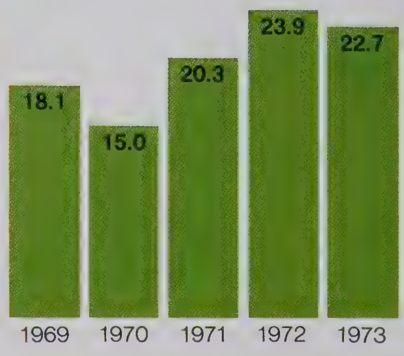
Neonex International Ltd.
and subsidiaries

	YEAR ENDED DECEMBER 31 1973	1972
	(thousands)	Note 10
Source		
Earnings before extraordinary items	**$ 3,400**	3,200
Depreciation	**2,500**	2,000
Deferred income taxes	**(400)**	900
Funds provided from operations	**5,500**	6,100
Extraordinary items—Note 13	**7,000**	—
Long-term debt issued	**3,700**	6,100
Property, plant and equipment, less gain	**1,800**	2,200
Common shares issued	**—**	100
Increase in other deferred credits	**—**	400
	18,000	14,900
Application		
Property, plant and equipment	**9,400**	5,400
Net non-current assets of subsidiaries acquired	**2,400**	1,300
Goodwill on acquisition of subsidiaries	**300**	1,600
Long-term debt reduction	**5,700**	1,900
Non-current receivables	**700**	900
Dividends	**400**	400
Other	**300**	(200)
	19,200	11,300
Working capital		
Increase (decrease) during year	**(1,200)**	3,600
Opening balance	**23,900**	20,300
	$22,700	23,900

CAPITAL EXPENDITURES
millions of dollars



WORKING CAPITAL
millions of dollars



retained earnings

Neonex International Ltd.
and subsidiaries

	YEAR ENDED DECEMBER 31	
	1973	1972
	(thousands)	
		Note 10
Opening balance as previously reported	**$ 21,100**	17,900
Adjustments to prior years earnings—Note 10	**(400)**	—
As restated	**20,700**	17,900
Net earnings	**3,400**	3,200
	24,100	21,100
Cash dividends paid (5¢ per share each year)	**400**	400
Closing balance	**$ 23,700**	20,700

notes to financial statements

1. ACCOUNTING POLICIES

The following is a summary of the major accounting policies used in the preparation of financial statements and other data presented in this report.

Principles of consolidation
The consolidated financial statements include the accounts of the Company and all of its subsidiaries. All material intercompany transactions have been eliminated. The accounts of United States subsidiaries have been converted to Canadian dollars at par, which approximates the rate of exchange prevailing since the dates of their incorporation.

Rounding
All dollar amounts, except statutory information, are presented to the nearest $100,000.

Acquisitions
During the two years ended December 31, 1973 the Company acquired six businesses which have been accounted for as purchase transactions. The operations of these businesses have been consolidated from the effective dates of acquisition. The following is a summary of the disposition of the purchase consideration:

	1973	1972
	(thousands)	
Total cash purchase consideration	$ 2,000	2,900
Value of net assets acquired	1,700	1,300
Goodwill	$ 300	1,600

Goodwill
Goodwill having an unamortized balance of $2,900,000 is classified with deferred charges in the balance sheet. Management is of the opinion that none of the recorded goodwill has diminished in value. However, in order to conform with current accounting recommendations, goodwill having an original cost of $1,900,000 arising from acquisitions subsequent to 1971 is being amortized over 40 years. Goodwill related to acquisitions prior to 1972 having an original cost of $1,200,000 will be written-off if it ceases to be of value.

Inventories
Inventories of raw materials, work in progress, merchandise and finished goods held for sale are valued at the lower of average laid down cost or estimated realizable value. Manufacturing supplies are included with raw materials.

Leased signs
The financing method is used to account for electric signs which are manufactured by the Company and are leased, generally for a term of five years. When a sign is installed, the equivalent outright sale value of a similar sign is included in income and recorded as an account receivable. Manufacturing costs of leased signs are included in cost of sales and related selling expenses are charged against earnings. The excess of monthly rental payments over the sale value is credited to income when earned and provides for all related expenses and a normal profit. Selling expenses related to future revenue are deferred and amortized as such revenue is earned. The costs of sign maintenance and financing of lease contracts are charged to earnings as incurred.

Players' contracts and league franchise
Players' contracts of the Vancouver Blazers Hockey Team and the franchise in the World Hockey Association acquired in 1973 are recorded at cost.

The franchise was acquired after commencement of the 1973-1974 season and consequently the Company was obligated to honour existing contracts and other arrangements which would result in a loss from operations for the season. The Company considered the loss for the balance of the season in progress to be part of the cost to acquire the team. Accordingly, the loss for the period from date of acquisition to December 31, net of deferred tax effect, has been included in the cost of players' contracts and the franchise. Signing bonuses and other similar payments made to obtain subsequent players' contracts are amortized over the estimated player retention period of five years.

Financing costs
Costs of obtaining long-term debt financing are deferred and amortized over the term of the financing.

Depreciation and disposals
Depreciation is determined at rates which will reduce original cost to estimated residual value over the useful life of each asset. Depreciation on the majority of property, plant and equipment is computed on the diminishing balance method.

All material profits or losses resulting from disposal of property, plant and equipment are included in earnings when realized and the carrying value of such assets is removed from the accounts. Such profits included in other income amounted to $500,000 (1972—$200,000). The exception to this policy relates to sale and leaseback of significant properties when profits are deferred and amortized over the term of the lease.

Maintenance and repairs
Maintenance and repairs of a routine nature are charged to earnings as incurred except in the case of helicopters where provision is made for overhaul based on hours of use. Expenditures which improve or extend the useful life of assets are capitalized.

Start-up costs
The costs of establishing new operations, manufacturing plants and retail locations are charged against income in the year incurred.

Deferred income taxes
The Company follows tax allocation procedures in recording charges for income taxes. Taxes deferred as the result of claiming for tax purposes amounts different from those recorded in the accounts are charged against current earnings and are recorded in the balance sheet as deferred income tax credits. The timing differences relate to sign lease revenue, depreciation and deferred charges.

2. INVENTORIES

Inventories are valued at lower of cost or net realizable value.

	1973	1972
	(thousands)	
Raw materials	$ 6,200	4,400
Work in progress	2,000	1,400
Merchandise and finished goods	27,500	22,300
	$35,700	28,100

3. INVESTMENTS

	1973	1972
	(thousands)	
Maple Leaf Mills Limited 213,100 common shares, at quoted value at December 31, 1970—Note 13	$ —	3,100
Players' contracts and league franchise at cost—Note 1	2,400	—
Other at cost	100	100
	$ 2,500	3,200

4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at cost less accumulated depreciation.

	1973	1972
	(thousands)	
Land and improvements	$ 4,400	3,600
Assets rented to customers	2,500	2,800
Buildings	12,100	10,000
Machinery and equipment	19,600	15,400
	38,600	31,800
Accumulated depreciation	13,200	11,700
	$25,400	20,100

Depreciation at the following rates is determined on the diminishing balance method for all property, plant and equipment except assets rented to customers and helicopters which are depreciated on the straight line method.

Buildings	3% to 10%
Machinery and equipment	10% to 30%
Helicopters	8%
Assets rented to customers	10%

5. LONG-TERM DEBT

Long-term debt, excluding current maturities, consists of the following:

	1973	1972
	(thousands)	
Term bank loan at prime rate plus 1½% payable in six equal instalments, on January 1st each year	$ 8,100	10,000
6½% debentures, due 1980, payable $75,000 annually	800	900
Mortgages at rates from 6% to 10¼% due at various dates to 1995	1,600	2,300
Conditional sales agreements	1,300	500
	$11,800	13,700

Bank indebtedness is guaranteed by subsidiaries and secured by the assignment of accounts receivable, inventories and a floating charge demand debenture of $15,000,000 on the Company's assets. Under the terms of the Company's arrangements with its bank, the term loan may be increased to $11,900,000. In addition the Company has a line of credit of $15,000,000 for current operating loans at prime rate against which nothing is outstanding at December 31, 1973.

Long-term debt maturities are approximately $2,100,000 for each of the four years ending December 31, 1978.

6. DEFERRED AND OTHER CREDITS

	1973	1972
	(thousands)	
Income taxes	$ 1,000	1,600
Rental deposits, litigation provision and other deferred credits—Note 13	7,900	4,000
	$ 8,900	5,600

Additional deferred income taxes of $700,000 ($600,000 in 1972) are classified with current accounts payable as the related timing differences arise from amounts classified as current.

7. CONVERTIBLE NOTES

The 5¾% Convertible Senior Subordinated Notes due 1984 in the principal amount of U.S. $15,000,000 are payable in annual instalments of U.S. $2,500,000 commencing 1979, subject to prior redemption by the Company at a premium of 50%. The notes are convertible into 1,271,860 common shares which number may increase in accordance with antidilution provisions.

The carrying value of this U.S. obligation is recorded at par which approximates the current rate of exchange. The unrealized foreign exchange gain of $1,100,000 included with deferred credits represents the difference between par value and the Canadian dollar equivalent at the date of issue. The eventual credit to income will depend on the exchange rates which apply when the notes are redeemed.

8. COMMON SHARES

Authorized 14,000,000 shares of no par value; outstanding 7,214,748 shares.

	1973		1972	
	Shares	Amount	Shares	Amount
	(thousands)			
Opening balance	7,215	$5,900	7,195	$5,800
Issued for cash	—	—	20	100
	7,215	$5,900	7,215	$5,900

The Company has reserved 1,271,860 unissued shares which may be issued upon conversion of the 5¾% notes.

9. RETAINED EARNINGS

The 5¾% convertible note agreement restricts the payment of dividends to an amount not exceeding $2,000,000 plus consolidated net earnings subsequent to December 31, 1968 (unrestricted amount as of December 31, 1973 is $16,000,000).

10. RESTATEMENT OF PRIOR YEAR'S EARNINGS

During March 1974 the Acme Merchandise Distributors division established that merchandise accounts payable at December 31, 1972 were understated with the result that earnings previously reported for the year ended December 31, 1972 were overstated by $400,000 ($0.06 per share) after tax effect. The 1972 financial statements have been restated to reflect the appropriate adjustments.

11. COMMITMENTS AND CONTINGENT LIABILITIES

A significant portion of the Company's retail and warehouse locations are occupied under leases which expire during varying periods from five to twenty-five years. The Company also leases advertising sites, automotive and other equipment, which leases expire principally within one to ten years. In the normal course of business, most leases that expire will be renewed or replaced by other leases.

Annual net rental expense for the years ended December 31, 1973 and 1972 was as follows:

	1973	1972
	(thousands)	
Financing leases	$ 300	300
Other leases	2,400	2,000
	$ 2,700	2,300

Financing leases are classified as such if the lease, during the non-cancelable lease period, either covers 75% or more of the economic life of the property or has terms which assure the lessor a full recovery of the fair market value of the property at the inception of the lease plus a reasonable return on his investment.

At December 31, 1973 minimum annual rental commitments (excluding taxes and insurance if applicable) under all non-cancelable leases (reduced by sublease rentals) are payable as follows (Note 17):

1974-1978	$2,500,000	1984-1988	$900,000
1979-1983	$1,700,000	1989-1996	$800,000

A claim has been filed against a subsidiary for customs duties and penalties arising from transactions of the subsidiary which occurred prior to it being acquired by the Company. The Company has a contingent liability estimated not to exceed $300,000 and has been indemnified by the former shareholder of the subsidiary to the extent of any assessment.

A subsidiary is joined with other defendants in an action claiming damages of $1,000,000. The action has been dismissed but notice of appeal has been filed by the plaintiff. The Company has obtained an indemnity to the extent of any judgment. Legal counsel have expressed the opinion that the subsidiary's position can be successfully defended.

The Company is contingently liable to a maximum of $200,000 as guarantor of a bank loan to a 50% owned company. At December 31, 1973 the amount guaranteed was $200,000.

Finance contracts sold with recourse approximate $16,000,000 and are secured primarily by mobile homes sold by the Company. During each of the five years ended December 31, 1973 the Company has not incurred any net expense in connection with finance contracts.

The Company has various fixed asset and merchandise purchase commitments amounting to approximately $1,200,000.

12. INCOME TAX

The net income tax expense for 1973 amounted to $2,300,000 resulting in a 41% effective rate. This total is less than the amount of $2,800,000 computed by applying the Canadian Federal income tax rate plus the basic Provincial income tax rate, in total 49%, to income before tax. The reasons for the difference are:

	Income tax	% of pre-tax income
	(thousands)	
Computed expected tax expense	$ 2,800	49%
Reductions in tax resulted from:		
Capital gains not subject to tax	(200)	(3%)
Non taxable dividends, foreign exchange gains and other	(300)	(5%)
Income tax expense reported	$ 2,300	41%

13. LITIGATION

In 1969 the Company acquired 225,600 common shares of Maple Leaf Mills Limited and entered into purchase and option agreements with Norris Grain Company and Leitch Transport Ltd. to acquire an additional 852,911 common shares. Because of a default by Norris Grain Company, the Company was not able to complete its contractual commitments.

On June 29, 1971 the Company filed suit in the United States District Court for the Southern District of New York against Norris Grain Company and Bruce A. Norris seeking damages resulting from the default referred to above. The defendants denied the allegations of the complaint and counter-claimed seeking damages for the Company's alleged breach of its option agreement and for alleged defamation. By consent the Company's complaint was amended to state a cause of action for fraud against the original defendants and Robert C. Vincent, Sr. ("United States Litigation").

Leitch Transport Ltd. filed suit in the Supreme Court of Ontario against the Company seeking damages of $30,000,000 and discontinued its claims against the other defendants named in the writ, namely, Norris Grain Company, Norris Grain Company Limited and Bruce A. Norris. The Company has denied the allegations and has filed a counter-claim for return of the option money paid in the amount of $1,200,000.

The Company filed a third party claim in Canada against Bruce A. Norris, Robert C. Vincent, Sr., Norris Grain Company and Norris Grain Company Limited to recover the amount of any liability to Leitch Transport Ltd. which might be determined by the court.

Under a settlement agreement, the Company sold its 213,100 common shares of Maple Leaf Mills Limited to Norris Grain Company. In consideration of this transfer, in repayment of monies paid by the Company to Norris Grain Company for the option to purchase additional common shares of Maple Leaf Mills Limited and by way of damages for the claims made by the Company in the United States Litigation, Norris Grain Company paid an aggregate of $7,300,000 to the Company. In addition, under the settlement agreement, there was a mutual exchange of releases. The third party action by the Company is to be discontinued.

The action by Leitch Transport Ltd. against the Company is still pending.

The amount received by the Company from Norris Grain Company pursuant to the settlement agreement, net of legal fees, amounted to $7,000,000 and has given rise to an extraordinary credit in the Statement of Earnings in the amount of $3,900,000. This is represented in part by a gain on disposition of shares of Maple Leaf Mills Limited and in part by a recovery in respect of the claims made in the United States Litigation.

Pending determination of the associated Leitch Transport Ltd. litigation, an amount equal to the

extraordinary credit mentioned above has been recorded at this time as an extraordinary charge against net earnings to provide for any damages which may arise.

In the opinion of Canadian Counsel, the Company has good and valid defenses against the claims raised by Leitch Transport Ltd. However, if such defenses should prove unsuccessful, counsel is also of the opinion that the Company's ultimate liability should not exceed the amount provided.

The extraordinary items arising from the foregoing are summarized as follows:

Amounts received in respect of settlement of litigation, less expenses, and sale of Maple Leaf Mills Limited shares less carrying value of such shares	$ 3,900,000
Provision for outstanding litigation	(3,900,000)
	$ —

14. EARNINGS PER SHARE

Earnings per share are based on the weighted average number of shares (1973—7,214,748; 1972—7,200,923) outstanding during the year. Fully diluted earnings per share are not presented as the assumed conversion of the convertible notes has no material effect on earnings per share in the current year.

15. RETIREMENT PLANS

Certain employees participate in contributory retirement plans and are entitled to vested interests prior to retirement. Employees contribute specified percentages of their salaries and the balance of the cost is paid by the Company. The assets of the plans exceed the pension liabilities, computed by independent actuaries and there are no unfunded past service requirements. Contributions by the Company for 1973 were $300,000.

16. STATUTORY INFORMATION

The aggregate remuneration of 11 directors as directors was $45,033 (10 directors in 1972, $50,262); the aggregate remuneration of eight officers as officers was $370,000 (eight officers in 1972, $372,249); five directors were also officers of the Company or a subsidiary and as such received $259,881 (four directors in 1972, $270,700).

17. SUBSEQUENT EVENTS

Subsequent to December 31, 1973 the Company entered into agreements to sell the assets and businesses of the Pop Shoppes, the Winkler, Manitoba and Woodstock, Ontario operations of Neonex Leisure Products Ltd., and certain Ontario locations of the Acme Merchandise Distributors division. These transactions do not have a significant effect on continuing operations. The loss sustained on disposition is not significant. The consideration was $2,600,000 cash and $4,200,000 notes receivable, secured by the assets sold, maturing on varying dates to March 1977.

The minimum non-financing real property rentals reported in Note 11 will be reduced as a result of the above agreements in each of the five years 1974-1978 by approximately $200,000 and in the remaining five year periods, by the following aggregate amounts: 1979-83, $600,000; 1984-88, $100,000; 1989-96, $300,000.

auditors' report

We have examined the consolidated balance sheet of Neonex International Ltd. and subsidiaries as of December 31, 1973 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company and subsidiaries at December 31, 1973 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied, after restatement for the year ended December 31, 1972 as described in Note 10 of notes to financial statements, on a basis consistent with that of the preceding year.

PEAT, MARWICK, MITCHELL & CO.,
Chartered Accountants

Vancouver, British Columbia,
March 22, 1974.

how our sales dollars were divided

In 1973, the Company's total sales dollars of 209.7 million were distributed in the following manner:

$12 MILLION *(Income and other taxes, interest and dividends—$6.9 million) (Retained in business and depreciation—$5.1 million)*

$33.4 MILLION—TOTAL DIRECT PAYROLL

$164.3 MILLION—PRODUCTS AND SERVICES

annual meeting

The 1974 Annual Meeting of the Shareholders of Neonex International Ltd. will be held in The Library Room of the Royal York Hotel in Toronto, Ontario, Canada at 10:00 a.m. E.D.T. on Friday, May 24, 1974.

fold out for glossary of selected accounting terms

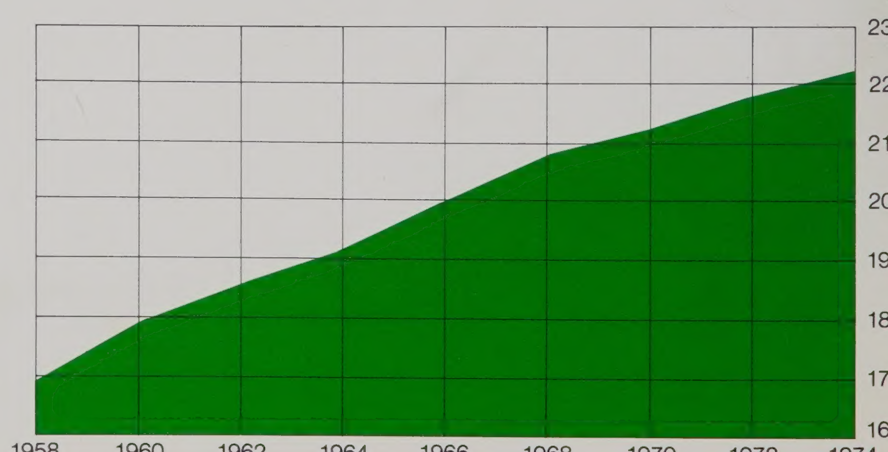
Our "Glossary of Selected Accounting Terms" has been located here for easy reference. When you study the Financial Statements and Notes, simply leave the back cover open and both pages can be checked at a single glance.

The Neonex corporate office is located in Vancouver, British Columbia, Canada's fastest growing Province.

NEONEX INQUIRIES

All inquiries concerning Neonex International Ltd. should be directed to Wilfred N. Ray, Director Corporate Communications at corporate office, 1055 West Hastings Street, Vancouver, British Columbia, V6E 2H2.

POPULATION
(millions of persons)



The market for consumer goods in Canada comprises the entire population. Canada's population is growing faster than any other industrialized nation in the world.
Source: Statistics Canada

glossary of selected accounting terms

Amortization—systematic allocation of costs to appropriate future accounting periods.

Antidilution Provisions—the price to be received for shares issued to retire the convertible notes will reduce if shares are issued to others below that price.

Capital Expenditures—purchases of property, plant and equipment.

Cash Flow—net earnings plus depreciation and other non-cash charges.

Conditional Sales Agreements—a method of financing whereby legal ownership of the property remains with the seller until final payment is made.

Contingent Liabilities—amounts which the company may be required to pay depending upon future circumstances.

Convertible Notes—an obligation which may be discharged at the holder's option by conversion into common shares.

Current Assets—amounts which will be realized in cash or used in the business within one year.

Current Liabilities—amounts which will be paid within one year.

Current Ratio—the ratio of current assets to current liabilities.

Current Maturities—the portion of long-term debt to be paid within one year.

Deferred Credits and Charges—income received and expenses incurred which will be allocated to appropriate future accounting periods

Deferred Income Taxes—income taxes which otherwise would have been payable if the company had not claimed deductions permitted under the Income Tax Act.

Depreciation—the annual charge against earnings designed to apportion cost of property, plant and equipment over its useful life.

Diminishing Balance Method—a method of providing depreciation which results in successively smaller provisions each year, and when combined with anticipated increased repair costs will result in roughly equal annual charges over the asset life.

Discontinued Operations—businesses previously operated by the company.

Extraordinary Items—profits or losses of significant size which do not arise from the usual business operations of the company.

Financing Leases—leases which assure the lessor a recovery of his investment plus a reasonable rate of return.

Floating Charge—a security charge on the assets of the company.

Fully Diluted—a calculation of earnings per share which assumes issuance of shares in repayment of the convertible notes outstanding.

Goodwill—the amount paid to purchase an established business which is in addition to the value of the individual assets acquired.

Indemnity—the right to recover from a guarantor a specific amount that the company may be required to pay.

Long-term Debt—funds borrowed for periods in excess of one year.

Pooling of Interests—a method of accounting in which the assets and liabilities of an acquired business are recorded at their historic costs.

Prepaid Expenses—expenses incurred which will be charged against operations of the following year.

Recourse—a potential obligation which may result from a typical method of financing mobile home sales. If the purchaser defaults, the company is required to repay the financial agency and can repossess the unit.

Redemption—repayment of long-term debt, generally prior to maturity date.

Residual Value—estimated salvage value of property, plant and equipment at the end of its useful life.

Return on Equity—earnings before extraordinary items for a fiscal year divided by the average shareholders' equity for that year and expressed as a percentage.

Sale and Leaseback—the sale of real property to an investor while retaining its use under a long-term lease.

Shareholders' Equity—amounts received by the company from the issue of shares plus profits retained for use in the business.

Straight Line Method—a method of providing depreciation in an equal amount in each accounting period. It is appropriate when repair costs are anticipated to be approximately equal in each year that the asset is used.

Vested Interests—rights arising prior to normal retirement age whereby an employee may receive a benefit at retirement based on company contributions to the pension plan as well as his own contributions.

Weighted Average—the average number of shares outstanding recognizing that shares are issued at varying times during the year.

Working Capital—the amount by which current assets exceed current liabilities.

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